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February 13, 2007

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Marlene Dortch
Secretary
Federal Communications Commission
445 – 12th St., SW
Washington, DC 20554


Re: WC Docket No. 06-90, Georgia Public Service Commission Petition for Declaratory Ruling

Dear Ms. Dortch:

On behalf of SouthEast Telephone, Inc. ("SouthEast"), Jeff Speaks and I made an *ex parte* presentation today to Michelle Carey, legal advisor to Chairman Martin, regarding the proceeding referred to above. We discussed the attached documents during the meeting.

Please contact me if you have any questions.

Respectfully submitted,



David L. Sieradzki
Counsel for SouthEast Telephone, Inc.

cc: Michelle Carey

Enclosures

SouthEast Telephone

Action Is Needed to Preserve Competition in Rural Telecommunications Markets




Darrell Maynard
President, SouthEast Telephone, Inc.
Pikeville, Kentucky

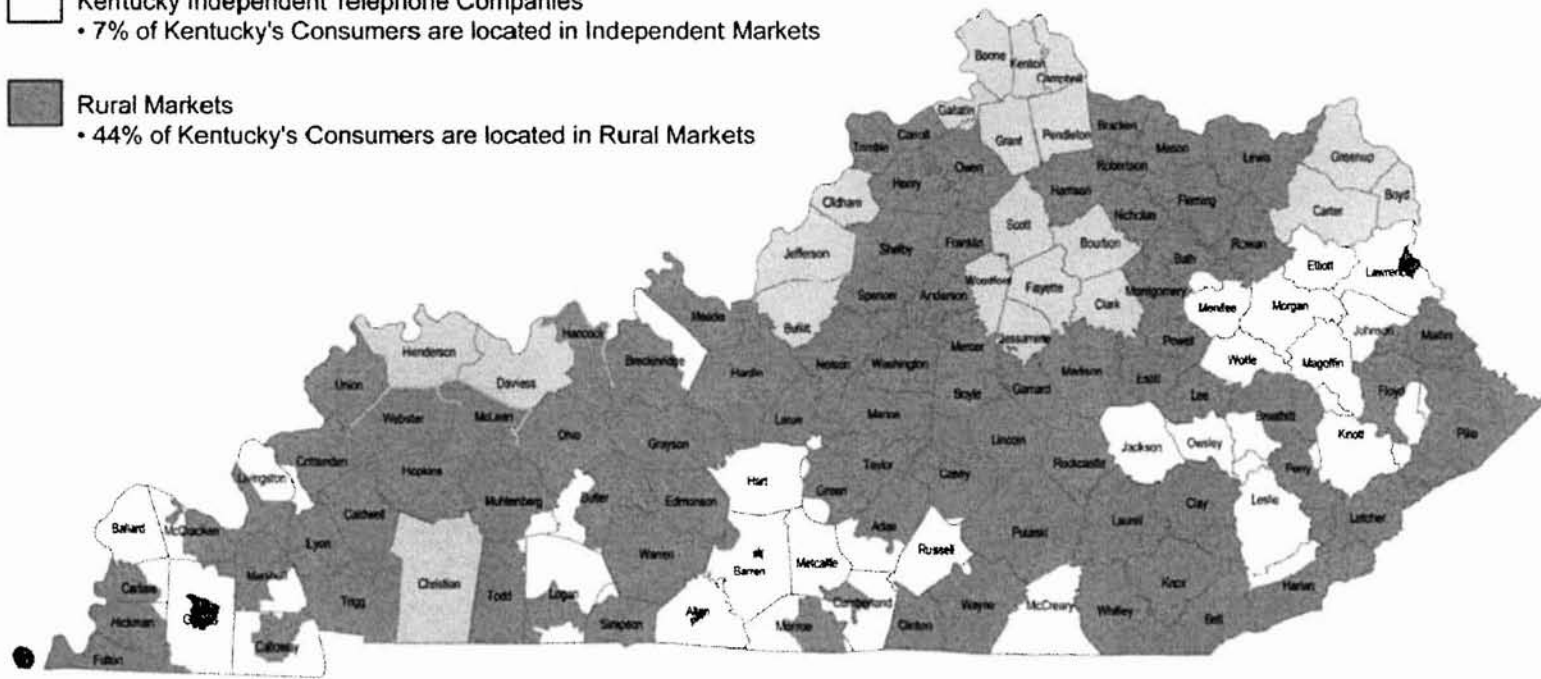
January 2007

Summary

- SouthEast is a facilities-based CLEC providing telecom and Internet service to mass market consumers in the rural areas served by AT&T/BellSouth in Kentucky.
- SouthEast is deploying broadband fiber to consumers in our rural service areas.
 - This competitive deployment will benefit consumers, but due to sparse population density in rural areas, is relatively costly and time-consuming.
- In the meantime, we still need to use AT&T/BellSouth network elements and combinations in order to compete and serve customers.
 - State PSCs must have authority to ensure that RBOCs provide §271 “Competitive Checklist” elements at just and reasonable terms and rates in rural areas.

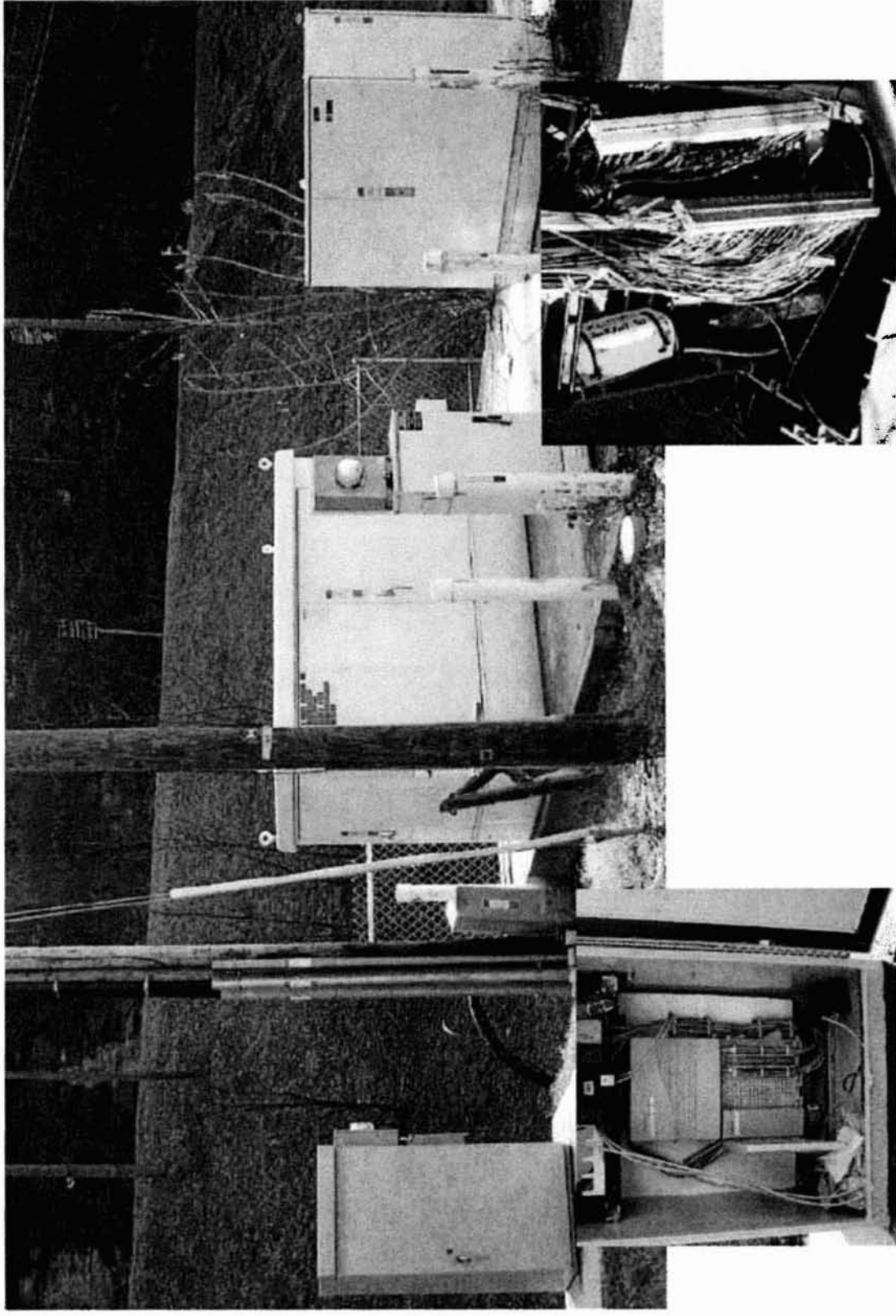
40% of AT&T/BellSouth Kentucky Consumers Live in Rural Markets

-  Metropolitan Markets
 - 49% of Kentucky's Consumers are located in the Metropolitan Markets
-  Kentucky Independent Telephone Companies
 - 7% of Kentucky's Consumers are located in Independent Markets
-  Rural Markets
 - 44% of Kentucky's Consumers are located in Rural Markets



• BellSouth, Alltel, Independent, & Cincinnati Bell service areas in Kentucky

SouthEast Builds Fiber to Rural Areas and Interconnects at Remote Nodes



SouthEast Needs Access to ILEC Network Elements to Serve Consumers

- Pending our fiber deployment, we still need the opportunity to access combinations of AT&T/BellSouth network elements to serve our consumers.
- AT&T/BellSouth committed to open its local markets to competition by offering “Competitive Checklist” elements, in exchange for §271 long-distance entry.
- AT&T/BellSouth is failing to keep its promises to rural Kentucky.
 - AT&T/BellSouth service quality to SouthEast has deteriorated sharply – causing repeat repairs that harm SouthEast’s standing with consumers.
 - AT&T/BellSouth undermines competition with below-cost “win-back” promotions.
- AT&T/BellSouth adamantly rejects the Kentucky PSC’s efforts to address these issues.

Action is Needed to Preserve Opportunities for Rural Competition

- State PSCs must have authority to oversee the just, reasonable, and nondiscriminatory rates and terms for RBOCs' § 271 elements in interconnection agreements.
 - AT&T/BellSouth also should offer CLECs discounted wholesale DSL.
 - AT&T/BellSouth should provide CLECs with access to decommissioned copper loops.
- SouthEast Telephone does not object to relaxation of RBOCs' regulatory constraints in markets that have multiple facilities-based competitors.
 - But there is virtually no facilities-based competition in rural Kentucky.
 - AT&T/BellSouth is focusing broadband deployment mostly in urban areas – rural consumers are being left out.

SouthEast Telephone

January 31, 2007

Representative Rick Boucher
2187 Rayburn House Office Bldg.
Washington, DC 20515

Dear Congressman Boucher:

Thank you for taking time last week to discuss broadband deployment, adoption, and competition in the rural markets of America. Since broadband deployment and adoption are so important for rural America, it is crucial that all opportunities for improvement are reviewed.

We applaud you for your understanding of the telecom industry and the intrinsic tie between voice and broadband services. It is refreshing to hear from someone who understands that competition is a key component of innovation and low prices which leads to adoption and deployment of technology.

We recognize that the ultra-low TELRIC prices for the Unbundled Network Element-Platform (UNE-P) in many metropolitan areas created opportunities for what the D.C. Circuit court called "synthetic competition." These low UNE-P rates gave major CLECs incentives to rely primarily on ILEC networks rather than investing their own money in alternate facilities. For example, under the loop de-averaging plan adopted in Kentucky, CLECs purchasing UNE-P from BellSouth in large cities like Louisville were able to achieve product margins of 65% to 70% (*i.e.*, the difference between retail rates received and the wholesale amounts paid for UNE-P lines). Now that the courts and the FCC have eliminated TELRIC pricing for UNE-P, these unreasonably wide product margins have been narrowed considerably, which has created more appropriate incentives for CLECs to increase broadband deployment and adoption in the metropolitan markets.

But what happened in the rural markets? In particular, the rural areas served by large ILECs like AT&T/BellSouth – representing approximately 44% of the total population in states like Kentucky – have not experienced significant facilities-based competition or broadband network deployment. Why not?

It has to do with the restricted ability to develop true facilities based competition. Affordable technology enabling rural CLECs to deploy provide voice and broadband service to rural consumers (*i.e.*, Broadband Loop Carrier or BLC) has been available only for the past year or two. The unavailability of this technology in the past and the high cost of rural broadband transport have made it difficult for CLECs to deploy broadband network facilities in the past. SouthEast is moving rapidly to acquire and deploy the

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necessary technology and transport facilities, but this will take some time, and to date we serve only a small portion of our rural service area in this manner. In order to make the transition, we need to be able to remain in business and attract investment capital – which requires us to continue serving the majority of our existing base of approximately 50,000 customers using BellSouth's network element combinations for the time being.

The "steeply discounted" UNE-P rates were offered only in the metropolitan markets and have not been available to companies that serve the rural consumer. By contrast to the \$10 de-averaged price for unbundled loops in Zone 1 (metropolitan areas) in Kentucky, BellSouth charges over \$30 for the same unbundled loops in Zone 3 (rural markets).

AT&T/BellSouth's proposed new rate increases for combinations of network elements would make things much worse for CLECs like SouthEast that serve the rural consumer, and effectively would drive competitors like us out of the rural marketplace. Since March 2005, BellSouth has attempted to increase rates for the local switching and other "port" elements by \$8 to \$10 in its so-called "commercial agreements." As demonstrated in the chart below, these proposed changes essentially would eliminate opportunities for competition in the rural markets, leaving a slim to none chance that any CLEC would want to pursue a rural market business plan.

BellSouth Wholesale Rates and CLEC Retail Revenues for Voice Service in Kentucky	Urban Markets (Zone 1)		Rural Markets (Zone 3)	
	Pre 3/05 (TELRIC)	Post March 2005	Pre 3/05 (TELRIC)	Post March 2005 (Proposed)
Unbundled Loop Rate	\$9.64	\$9.64	\$30.59	\$30.59
"Port" Charge	\$1.70	\$9.70	\$1.70	\$9.70
Total Wholesale Rate for Network Element Combinations	\$11.34	\$19.34	\$32.29	\$40.29
Average Retail Revenues (all customer categories)	\$37.18	\$37.18	\$37.18	\$37.18
Product Margin (Retail Rate Minus Wholesale Rate) ^{1/}	\$25.84	\$17.84	\$4.89	(-\$3.11)
% Product Margin	69.5%	48.0%	13.2%	(-8.4%)

The table above illustrates problems with rural CLECs' ability to deploy pure "voice" service. But our situation is even worse when it comes to broadband services like DSL, which as mentioned above have an intrinsic connection to voice services because

^{1/} (Note that the product margins shown in the table do not take into account our internal costs for provisioning, customer care, and other expenditures, nor do they take into account revenues from non-voice retail services, access charge billing, or USF support.)

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consumers increasingly want to buy both voice and broadband in a single service package. Under the AT&T/BellSouth merger conditions, the company will offer DSL service to retail consumers at \$10 per month. But they are unwilling to sell us the wholesale version of this service for any less than \$20 per month. Consider how this affects the numbers in the chart above: we would have to pay \$40.29 per line for voice service plus \$20 per line for wholesale DSL, for a total of \$60.29 in wholesale costs. On the retail side, we could expect end user revenues of only \$37.18 for voice plus \$10 for DSL (to match the AT&T/BellSouth rate), a total of \$47.18. This leaves us with a negative product margin of (-\$13.11), or (-27.8%). This clearly would make competition absolutely impossible in our rural service area.

In sum, the market dynamics in metropolitan areas today may provide incentives for competition that brings choices, innovative advanced services and reduced prices to consumers. However, the rural consumer is still without competition. With proper attention, it is possible to create more incentives for CLEC to serve rural markets and make the investments that would produce the same competitive environment enjoyed in the metropolitan markets.

We would be honored to make ourselves available to discuss any rural telecom issues in further detail. Thank you again for your time and consideration.

Very truly yours,

Darrell Maynard,
President

cc: Amy Levine